J. OBRA 1993 Hospital-Specific Limitations

1. General Background

   a. Section 1396r-4(g) of Title 42 of the United States Code, as added by the Omnibus Budget Reconciliation Act of 1993 ("OBRA 1993"), imposes hospital-specific limitations on the amount of federal financial participation available for payment adjustments for the 1994-95 payment adjustment year and subsequent payment adjustment years ("OBRA 1993 limits"). The OBRA 1993 limits are applied on an annual basis, based on the State fiscal year. As described in subsection 5 below, the limits apply to public hospitals for the 1994-95 payment adjustment year, and to all eligible hospitals for the 1995-96 and subsequent payment adjustment years.

   b. Under the OBRA 1993 limits, payment adjustments made to a hospital with respect to a State fiscal year may not exceed the costs incurred by the hospital of furnishing hospital services, net of Medi-Cal payments (other than disproportionate share hospital payment adjustments described at page 18 *et seq.* of this Attachment) and payments by uninsured patients, to individuals who either are eligible for the Medi-Cal program or have no health insurance (or other source of third party coverage) for services provided during the year. Payments made by a State or unit of local government to a hospital for services provided to indigent patients are not considered to be a source of third party payment.

2. General Approach To Calculations/Program Consistency

   a. Definitions

      For purposes of this Section J, the following definitions shall apply:

      (1) "Subject payment adjustment year" means the particular payment adjustment year to which the limitations described in this Section J are being applied.

(2) "Data determination date" means, with respect to the 1994-95 and 1995-96 payment adjustment years, the date of September 15, 1995. For the 1996-97 payment adjustment year and subsequent payment adjustment years, the date of June 15 immediately prior to the beginning of the subject payment adjustment year shall be the "data determination date" with respect to that subject payment adjustment year.

b. To facilitate implementation of the OBRA 1993 limits under the Medi-Cal program, the calculations of costs and revenues shall, except as otherwise provided in this Section J, be determined prior to the beginning of the subject payment adjustment year. For the most part, the data used in the calculations will be obtained through the data collection mechanisms and sources used in the determinations of hospital eligibility and payment adjustment levels under the payment adjustment program for the subject payment adjustment year.

c. In recognition of their unusual nature, three limited elements of Medi-Cal program costs and revenues will be computed based on more recent data than other costs and revenues. These three elements relate to the Medi-Cal Construction Renovation and Replacement Program under Welfare and Institutions Code Section 14085.5 ("CRRP"), the Medi-Cal Administrative Claiming program under Welfare and Institutions Code Section 14132.47 ("MAC") referred to as Medi-Cal Administrative Activities ("MAA"), and the Medi-Cal Targeted Case Management program under Welfare and Institutions Code Section 14132.44 ("TCM").

d. Except as otherwise provided in this Section J, the Department shall calculate the OBRA 1993 limit for each hospital prior to the beginning of the subject payment adjustment year, or as soon thereafter as possible. The calculations for the subject payment adjustment year shall be based only on that data available as of the data determination date, except for CRRP, MAA and TCM data described in the

preceding paragraph, which may include data collected through a survey completed after the data determination date and except for other data as described in this Section J.

e. With respect to the 1994-95 payment adjustment year, the methodology set forth in subsection 4 shall apply except as provided for in subsection 6.

f. Where a federal Medicaid demonstration project under Section 1315(a) of Title 42 of the United States Code is in effect, or may be in effect, during the subject payment adjustment year, the methodology set forth in subsection 4 shall apply, except as provided for in subsection 7.

3. Calculation Of OBRA 1993 Limit - General Methodology

a. With respect to each payment adjustment year referred to in subsection 5 below, the Department shall compute the OBRA 1993 limit for each eligible hospital, based on the data elements referred to below.

b. Except as otherwise provided in paragraph c, or in subsections 6 or 7, in determining expenses the Department shall use the data from the annual reports filed by hospitals with OSHPD that are used to structure the payment adjustment program for the subject payment adjustment year. All data from such reports shall be considered to be final for purposes of these calculations as of the February 1 immediately prior to the applicable data determination date for the subject payment adjustment year. For example, for the 1995-96 payment adjustment year, the Department shall use reports relating to the hospital's fiscal year that ended during calendar year 1993. The Department shall use a trend factor to project these expenses into the subject payment adjustment year, as described in subparagraph (1) of paragraph b of subsection 4 below. For the 1994-95 payment adjustment year, the Department shall implement the special rules set forth in subsection 6. Further, where federal demonstration projects are involved, the Department shall implement the special rules set forth in subsection 7.

c. With respect to MAA, TCM, and specified CRRP expenses, the Department shall conduct a survey of affected hospitals to compute such expenses for application of the OBRA 1993 limits relating to the subject payment adjustment year.

d. Except as otherwise provided in paragraph e, or in subsections 6 or 7, in calculating revenues the Department shall use data involving Medi-Cal payments made by the Department for hospital services during the calendar year ending six months prior to the beginning of the subject payment adjustment year. For the most part, these data shall be obtained from the data collection mechanisms and sources used to determine the annualized Medi-Cal inpatient paid days referred to in subsection 9 of Section B of this Attachment. For the 1994-95 payment adjustment year, the Department shall implement the special rules set forth in subsection 6. Further, where federal demonstration projects are involved, the Department shall implement the special rules set forth in subsection 7.

e. With respect to MAA, TCM, and specified CRRP revenues, the Department shall conduct a survey of affected hospitals to compute such revenues for application of the OBRA 1993 limits relating to the subject payment adjustment year. Surveys shall be conducted at such time that consistent and reliable data, as determined by the Department, is available statewide.

4. Calculation Of OBRA 1993 Limits - Formula To Be Used

The formula set forth below is for purposes of implementing the OBRA 1993 limits. The calculations involve various projections and estimates of hospital revenues and expenses.

a. The formula to be used by the Department for each eligible hospital shall be:

DSH_LMT = MCUN_EX - MCUN_RV

WHERE:

DSH_LMT = the OBRA 1993 hospital-specific limit

MCUN_EX = Medi-Cal/Uninsured Expenses

MCUN_RV = Medi-Cal/Uninsured Revenues

The specific elements yielding MCUN_EX and MCUN_RV are described below in paragraphs b and c, respectively.

b. "Medi-Cal/Uninsured Expenses" (MCUN_EX)

(1) "Projected Adjusted Hospital Operating Expenses" is computed from prior year OSHPD data that are projected ("trended") forward into the subject payment adjustment year. Except as provided in subsections 6 or 7, the Department shall use the data from the annual reports filed by hospitals with OSHPD that are used to determine eligibility for payments under the program (the "Hospital Disclosure Reports"). All data from such reports shall be considered to be final for purposes of these calculations as of the February 1 immediately prior to the applicable data determination date for the subject payment adjustment year. "Projected Adjusted Hospital Operating Expenses" is the sum of "Total Operating Expenses" (TOT_OP) and "Bad Debt" (BADDEBT) as reported on the applicable OSHPD report, minus "CRRP Costs" for the same period (CRRP) as determined by the applicable hospital-specific survey, multiplied by the trend factor (TREND).

The computation of the "Projected Adjusted Hospital Operating Expenses" (PR_ADJOP) is expressed as follows:

PR_ADJOP = (TOT_OP + BADDEBT - CRRP) x TREND.

The applicable trend factor shall be derived from the Medicare hospital input price index ("Medicare hospital market basket"), developed

by the Health Care Financing Administration and forecasted by Data Resources, Inc./McGraw Hill. Except as provided in subsection 6, the trend factor shall equal the product of the Medicare hospital market basket percentage increases that were forecasted and published in the Federal Register for the three most recent federal fiscal years ("FFY") in conjunction with the annual "Medicare Program Changes to Hospital Inpatient Prospective Payment Systems and Rates" promulgated (or proposed, where final rules have not yet been promulgated) as of the applicable data determination date for the subject payment adjustment year. The earliest of the particular Medicare hospital market basket percentage increases used shall be multiplied by an adjustment factor to account for varying hospital OSHPD reporting periods. The applicable adjustment factor will depend on the particular month in which a hospital's OSHPD data reporting period ends, as follows:

OSHPD Reporting Period Ending	Adjustment Factor
Jan	1.417
Feb	1.333
Mar	1.250
Apr	1.167
May	1.083
Jun	1.000
Jul	.917
Aug	.833
Sep	.750
Oct	.667
Nov	.583
Dec	.500

For example, with respect to the 1995-96 payment adjustment year, the three applicable Medicare hospital market basket percentage increases are 4.3% (final federal figure for FFY 1994, 58 Fed.Reg. 46270), 3.6% (final federal figure for FFY 1995, 59 Fed.Reg. 45330), and 3.5% (final federal figure for FFY 1996, 60 Fed.Reg. 45778), as promulgated in the Federal Register on or before September 15, 1995. The applicable trend factor for the 1995-96 payment adjustment year is therefore computed as:

TREND = [1 + (.043 x 1.00*)] x 1.036 x 1.035.
*(Adjustment factor, for the earliest of the federal figures used (FFY 1994), for hospital with OSHPD data reporting period ending in June 1993.)

For a hospital with an OSHPD data reporting period ending in March 1993, the trend factor applicable for the 1995-96 payment adjustment year is computed as:

TREND = [1 + (.043 x 1.250*)] x 1.036 x 1.035.
*(Adjustment factor, for the earliest of the federal figures used (FFY 1994), for hospital with OSHPD data reporting period ending in March 1993.)

(2) "CRRP Costs" (CRRP_EX) derived from the applicable hospital-specific survey (which costs shall be limited to applicable depreciation, interest and, to the extent such costs are reflected in the debt service amounts recognized under Welfare and

Institutions Code Section 14085.5, the following other federally recognized capital-related costs as described in Title 42 of the Code of Federal Regulations, Section 413.130: taxes, costs of betterments and improvements, costs of minor equipment, insurance, debt issuance costs, debt discounts and debt redemption costs) are added to the "Projected Adjusted Hospital Operating Expenses," and "MAA Costs" (derived from the applicable hospital-specific survey) are subtracted, to arrive at the "Projected Total Hospital Expenses" for the subject payment adjustment year.

The computation of the "Projected Total Hospital Expenses" (PR_TOTEX) is expressed as follows:

PR_TOTEX = PR_ADJOP + CRRP_EX - MAA.

(3) A "Medi-Cal/Uninsured Patient Mix" ratio is applied to the "Projected Total Hospital Expenses." The "Medi-Cal/Uninsured Patient Mix" ratio is the ratio of all gross inpatient and outpatient charges (including charges associated with services provided under the Medi-Cal/Short-Doyle program, the San Mateo/Santa Barbara Health Initiative and other managed care programs) attributable to Medi-Cal patients, the County Indigent Program, and uninsured patients to total gross inpatient and outpatient charges. The necessary data elements are extracted from the applicable OSHPD report, the Medi-Cal/Short-Doyle paid claims tapes, San Mateo/Santa Barbara Health Initiative paid claims tapes, and the MEDS and OSHPD Confidential Discharge Data files.

The computation of the "Medi-Cal/Uninsured Patient Mix" ratio (MCUN_MIX) is as follows:

MCUN_MIX = (MCCRG + COINDCRG + UNINSCRG) ÷ (TOTIPCRG + TOTOPCRG).

WHERE:

MCCRG = Total Medi-Cal inpatient and outpatient charges (including charges associated with services provided under Medi-Cal managed care programs);

COINDCRG = Total County Indigent Program inpatient and outpatient charges;

UNINSCRG = Total charges attributable to uninsured patients;

TOTIPCRG = Total inpatient charges; and

TOTOPCRG = Total outpatient charges.

Projected "demonstration project expenses" (DEMO EX) are determined based on the terms and conditions of an approved federal Medicaid demonstration project, but only to the extent set forth in paragraph b of subsection 7. DEMO EX is added to the product of PR TOTEX and MCUN MIX to determine "Medi-Cal/Uninsured Expenses."

The computation of "Medi-Cal/Uninsured Expenses" (MCUN_EX) is therefore expressed as follows:

MCUN_EX = PR_TOTEX x MCUN_MIX + DEMO EX.

c. "Medi-Cal/Uninsured Revenues" (MCUN_RV) is comprised of the following components:

(1) "Medi-Cal Inpatient Revenues" (MIP_RV).

Except as otherwise provided in this Section J, "Medi-Cal Inpatient Revenues" shall be equal to the revenues for inpatient services, regardless of dates of service, for which payment was made by or on behalf of the Department to a hospital, under present or previous ownership, during the calendar year ending prior to the beginning of the subject

payment adjustment year. The revenue data shall be obtained from the data collection mechanisms and sources used by the Department in determining the hospital's annualized Medi-Cal inpatient paid days (as referred to in subsection 9 of Section B of this Attachment) as well as other applicable data maintained by the Department relating to Medi-Cal payments made during the same calendar year time period. These data sources are the Medi-Cal paid claims tapes, Medi-Cal/Short-Doyle paid claims tapes, San Mateo/Santa Barbara Health Initiative paid claims tapes and other managed care plan payment data. (This step does not include payments under Welfare and Institutions Code Section 14085.6, which are addressed in subparagraph (4) below. It also does not include certain demonstration project revenues, as described in subsection 7 below. For special rules regarding the 1994-95 payment adjustment year, see subsection 6 below.)

(2) "Medi-Cal Outpatient Revenues" (MOP_RV).

Except as otherwise provided in this Section J, "Medi-Cal Outpatient Revenues" shall be equal to Medi-Cal revenues for outpatient services, regardless of dates of services, for which payment was made by or on behalf of the Department to a hospital, under present or previous ownership, during the calendar year ending prior to the beginning of the subject payment adjustment year. The revenue data shall be obtained from the data collection mechanisms and sources used by the Department in determining the hospital's annualized Medi-Cal inpatient paid days (as referred to in subsection 9 of Section B of this Attachment) as well as other applicable data maintained by the Department relating to Medi-Cal payments made during the same calendar year time period. These data sources are the Medi-Cal paid claims tapes, Medi-Cal/Short-Doyle paid claims tapes, San Mateo/Santa Barbara Health Initiative paid claims tapes, and other managed care plan